



City of Liberty Lake

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Quarterly Financial Report

Third Quarter 2010

November 24, 2010

Overview

The Quarterly Financial Report provides a summary budget to actual comparison of revenues and expenditures for each fund through the end of the most recently completed fiscal quarter. The information contained in this report is prepared on a cash basis.

General Fund

Revenues

The majority of General Fund revenue collections at the end of third quarter closely followed projections. Revenues for third quarter 2010 totaled \$1,182,212, which is a 60% increase compared with third quarter 2009. The percentage increase is due to increases in grant and building revenues. The City continued to experience an increase in revenues related to building activities in the third quarter compared to third quarter 2009. The City collected \$66,628 in building permit fees for third quarter, which increased 83% from third quarter 2009. The City experienced a 74% increase over third quarter 2009 in admissions tax revenues. Intergovernmental revenues increased significantly in third quarter 2010 compared to third quarter 2009 due to two grants the City received for Rocky Hill Park and an energy efficiency grant from the U.S. Department of Energy.

Although the economic recovery continues at a slow pace, Liberty Lake experienced increases in sales tax revenue in several sectors in third quarter 2010 compared to third quarter 2009. Retail sales, which typically represent approximately 55% of all sales tax that comes in to Liberty Lake, is showing signs of improvement, although nowhere near the levels experienced in 2006 and 2007. Sales tax from retail sales increased 3% compared to third quarter 2009.

In July, the City was contacted by the Department of Revenue and was informed a Liberty Lake business was incorrectly paying sales tax on nontaxable manufacturing activities. Therefore, the business was able to recoup all monies collected by the state and distributed to the City through 2001 when Liberty Lake first incorporated. Approximately \$127,111 was deducted out of the City's sales tax revenue under manufacturing for July by the state.

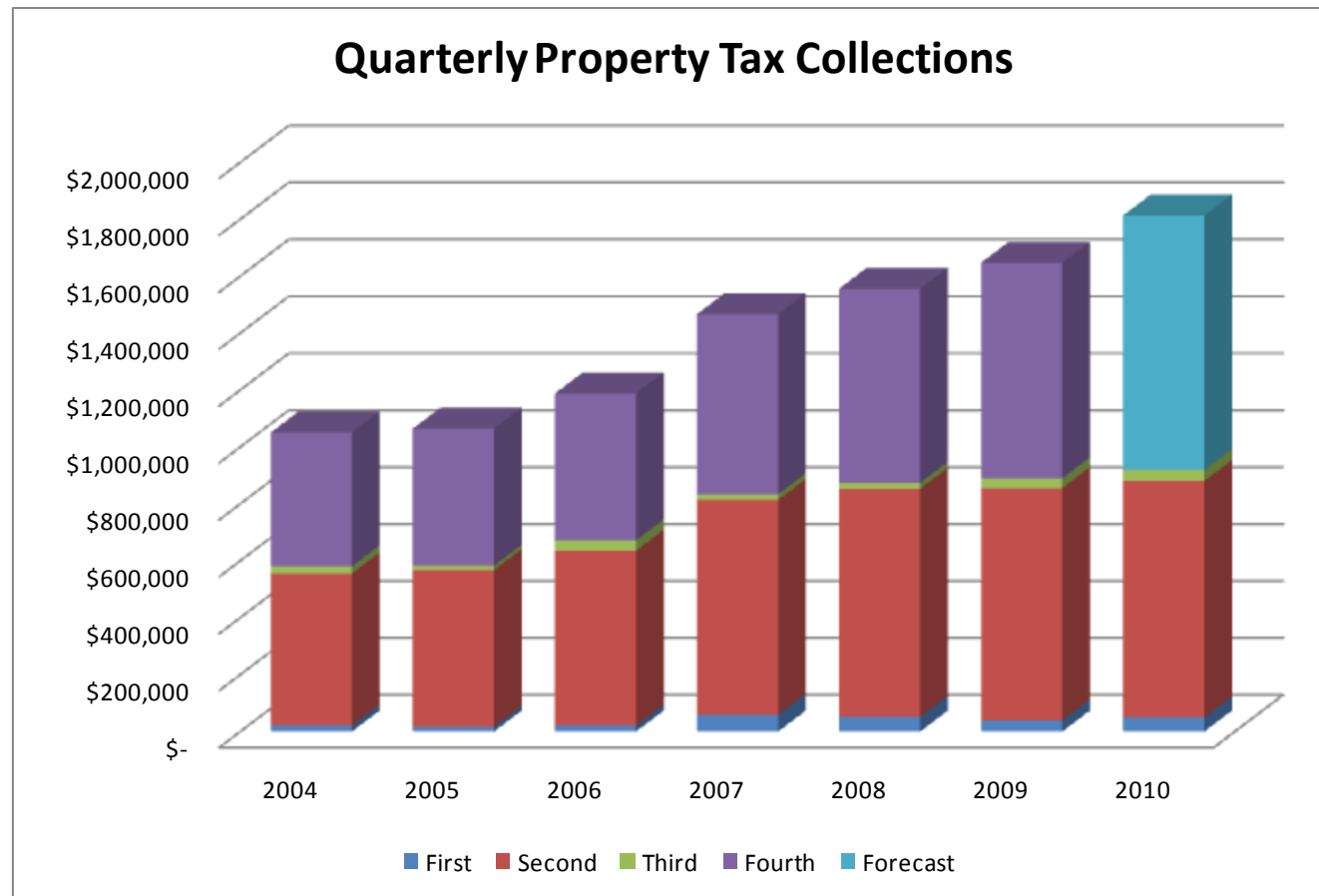
The following table shows budgeted and actual revenues for third quarter 2009 and 2010. The table also shows the percentage of revenues utilized and the remaining uncollected balance through September 30, 2010.

General Fund: Revenues

Revenue Category	Third Quarter Actuals		Projected		% of Revenues Collected through Third Quarter		Remaining
	07/01/09 - 9/30/09	07/01/10 - 9/30/10	2009	2010	2009	2010	2010
Sales Tax	453,194	383,922	1,854,000	1,752,079	69.4%	65.7%	600,188
Property Tax	35,143	38,696	1,762,712	1,813,405	50.5%	50.7%	894,291
Other Taxes	67,499	82,972	193,500	207,104	87.5%	91.0%	17,946
Licenses and Permits	67,366	107,873	380,160	227,350	45.1%	130.5%	(69,313)
Intergovernmental Revenue	66,970	484,023	672,100	737,634	26.8%	75.6%	180,287
Charges for Services	30,277	55,858	123,800	91,000	55.4%	126.2%	(23,885)
Fines and Forfeitures	16,147	22,163	64,000	65,000	82.7%	89.8%	6,645
Miscellaneous Revenues	3,940	6,705	52,400	16,600	42.8%	100.5%	(84)
Other Revenues	-	-	-	-	0.0%	0.0%	(734)
Total Revenues	740,536	1,182,212	5,102,672	4,910,172		93.9%	1,605,341
Non Revenue Sources	19,271	21,576	67,050	66,050		95.1%	3,210
Beginning Fund Balance on July 1st	1,757,140	1,473,183					
Total Resources	2,516,947	2,676,971					

- **Taxes.** This category reflects the collection of sales and use taxes; property taxes; public safety; admissions taxes; and leasehold excise taxes.

Of the \$3.7 million projected, \$1.8 million is in the form of property tax. Property tax revenues are typically received during the second and fourth quarters of the year. Through the third quarter of 2010, the City has collected 50.7% of the property taxes projected. Total property tax collections through the third quarter of 2010 were \$919,114. The table below reflects quarterly property tax collections from 2004 to 2010.



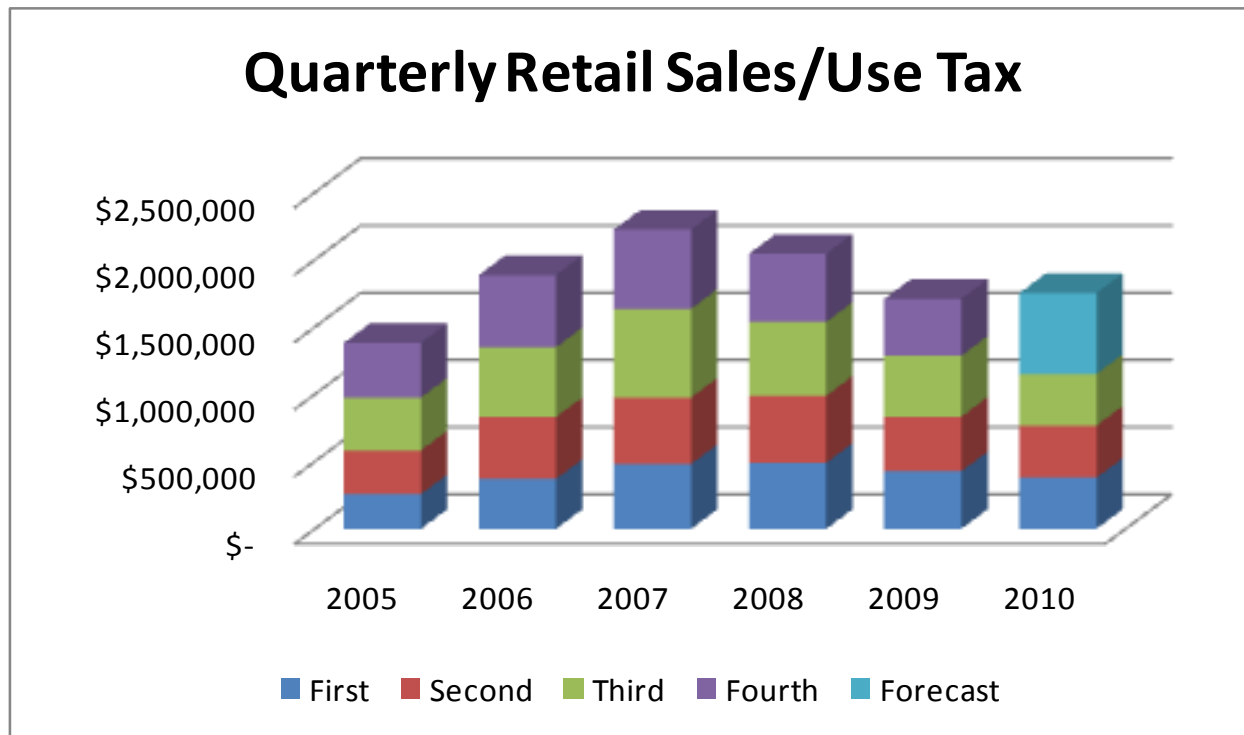
The City experienced a 15% decline in sales tax revenue compared to third quarter 2009. The decline is attributed to a company in Liberty Lake incorrectly paying sales tax on nontaxable manufacturing activities. On a positive note, the construction sector had its first quarterly increase since first quarter 2008. Others sectors that experienced an increase include wholesale trade, retail, accommodation and food service, and other sectors.

Sales tax collections fluctuate from quarter to quarter due to seasonal activity. The City typically receives more sales tax revenue in the second half of the year. The following table compares 2010 with 2009 sales tax revenue for third quarter and includes a breakdown by business sector.

Third Quarter Retail Sales and Use Tax

Business Sector	Revenue (Jul - Sept)		% Change	% of Total	
	2009	2010		2009	2010
Construction	\$ 37,788	\$ 44,382	17%	8%	12%
Manufacturing	\$ 15,489	\$ (108,108)	-798%	3%	-28%
Wholesale Trade	\$ 28,874	\$ 44,540	54%	6%	12%
Retail	\$ 261,385	\$ 270,090	3%	58%	70%
Telecommunications & Other Information Services	\$ 32,198	\$ 29,130	-10%	7%	8%
Finance, Insurance, Real Estate, & Administrative Support Services	\$ 20,006	\$ 17,418	-13%	4%	5%
Accommodation and Food Service	\$ 29,071	\$ 31,991	10%	6%	8%
All Other Sectors	\$ 28,383	\$ 54,479	92%	6%	14%
Total	\$ 453,194	\$ 383,922	-15%	100%	100%

The following chart displays the quarterly retail sales and use tax collected since 2004. Growth in taxable retail sales over the past several years had been fueled by new construction and real estate related sectors, which had significant growth between 2005 and 2007, however growth has slowed significantly following the economic downturn.



Business Sector Descriptions

Construction: The construction industry is divided into three major segments. The *construction of building* segment includes contractors, usually called general contractors, who build residential, industrial, commercial, and other buildings. *Heavy and civil engineering construction contractors* build sewers, roads, highways, bridges, tunnels, and other projects. *Specialty trade contractors* perform specialized activities related to construction such as carpentry, painting, plumbing, and electrical work.

Manufacturing: The establishments in these industries produce a variety of goods, some of which are sold to the consumer, while others are sold as inputs to the manufacture of other products. Goods manufactured include computers and electronics, cabinets, machinery and parts to name a few.

Wholesale Trade: When consumers purchase goods, they usually buy them from a retail establishment, such as a supermarket, department store, gas station, or Internet site. When businesses, government agencies, or institutions, such as universities or hospitals, need to purchase goods, they normally buy them from wholesale trade establishments. Retail establishments purchase goods for resale to consumers, but other establishments purchase equipment, motor vehicles, office supplies, or any other items for their own use. Customers of wholesale trade firms buy goods for use in making other products, as in the case of a bicycle manufacturer that purchases steel tubing, wire cables, and paint. Customers also may purchase items for use in the course of daily operations, as when a corporation buys office furniture, paper clips, or computers.

Retail: In the retail industry goods or commodities are sold usually in small quantities directly to consumers. Retailing includes the Internet, specialty stores, department stores, supermarkets, as well as auto, boat and RV dealers.

Telecommunications & Other Information Services: The telecommunications industry delivers voice communications, data, graphics, television, and video at ever increasing speeds and in an increasing number of ways. Whereas wireline telephone communication was once the primary service of the industry, wireless communication services, Internet service, and cable and satellite program distribution make up an increasing share of the industry.

Finance and Insurance, Real Estate, & Administrative and Support Services: This category is very diverse. Under finance and insurance it can include such subcategories as credit intermediation, securities and commodity contracts, funds, trusts and other financial services. Real estate could include general real estate and leasing services. Administrative and support includes general administrative and support services, as well as waste management and remediation services.

Accommodation and Food Service: This industry includes all types of lodging. While many provide simply a place to spend the night, others cater to longer stays by providing food service, recreational activities, and meeting rooms. Food services and drinking places

may be the world's most widespread and familiar industry. These establishments include all types of restaurants, from fast-food eateries to formal dining establishments.

All Other Sectors: This category represents sectors not represented by those listed above. In terms of sales and use tax revenue, this category represents a small percentage of the overall revenue collected. All other sectors could include mining, utilities, transportation and warehousing, educational services, ambulatory health care services, and unclassifiable.

- *Licenses and Permits.* This revenue source reflects the collection of business licenses; solicitor licenses; cable franchise fees; building permits; and state building code surcharges. Building permit fees and cable franchise fees constitute 93% of the revenue in this category. The City received 95 new business license applications for third quarter.
- *Intergovernmental.* Intergovernmental revenues are grants, entitlements, shared revenues and payments for goods and services provided by one government to another. Revenues in this category include state-distributed money to be used for criminal justice purposes; state distributed revenue to counties and cities for the cost of implementation of the DUI and other criminal justice statutes; state-distributed taxes on liquor sold at state liquor stores and agencies and on other retail sales of wine; state distributed mitigation payments as part of streamline sales tax; and lastly, state distribution of license and permit fees, penalties, forfeitures, and other income received by the Liquor Control Board.
- *Charges for Services.* Charges for Services are revenues generated from the rendering of services for a fee. Charges for services will vary from month to month due to the seasonal activities that take place throughout the year.
- *Fines and Forfeits.* Fines and forfeits revenues are received from traffic fines and infractions. Fines and forfeitures vary from month to month due to seasonal fluctuation.
- *Miscellaneous Revenues.* This category represents revenues derived from sources not otherwise provided for in other accounts. Miscellaneous revenues primarily reflect interest earned on investments; donations; and private grants awarded to the City.

Expenditures

Comparing total actual to total budgeted expenditures through the third quarter, the General Fund was 49.5% of the budget which does not include non expenditures and ending balance. Expenditures for third quarter 2010 totaled \$1,095,578. The following table shows budgeted and actual expenditures for third quarter 2009 and 2010. An ending balance of \$1,557,351 has been maintained through the end of September for cash flow purposes.

General Fund: Expenditures

Expenditure Category	Third Quarter Actuals		Budget		% Expended Through Third Quarter		Remaining
	07/01/09 - 09/30/09	07/01/10 - 09/30/10	2009	2010	2009	2010	2010
General Government Services	433,129	156,972	1,711,170	1,850,355	58.9%	45.1%	1,015,620
Legislative	14,920	9,709	92,851	75,801	51.0%	47.0%	40,168
Municipal Court	30,759	39,594	148,000	152,440	57.5%	46.0%	82,324
Executive	7,369	9,869	69,011	64,311	40.5%	39.2%	39,098
Legal	12,000	12,000	48,500	48,000	66.0%	67.5%	15,578
Administrative Services	122,631	157,598	529,308	545,618	64.3%	65.9%	186,203
Law Enforcement	286,574	408,546	1,140,656	1,319,566	75.6%	75.5%	322,674
Planning and Building Services	134,187	81,360	439,802	350,593	76.4%	69.1%	108,503
Recreation & Youth Programs	46,057	38,304	123,800	84,527	56.9%	75.2%	20,932
Parks	120,743	181,626	852,702	668,372	25.9%	61.9%	254,372
Subtotal	1,208,370	1,095,578	5,155,800	5,159,583	58.8%	49.5%	2,085,472
Non Expenditures	22,677	24,043	76,100	67,200	59.7%	61.9%	25,618
Total Expenditures	1,231,047	1,119,620	5,231,900	5,226,783	58.8%	49.6%	2,111,090
Ending Balance on Sept 30th	1,285,900	1,557,351					

Other Fund Revenues

The majority of revenue collections in other funds were on track for the third quarter. Most funds in this category receive revenue through internal transfers from the General Fund including Library, Street Light Utility, Street, Restricted Reserve, Debt Service, Street Capital, Library Capital, and Unemployment. Other Fund Revenues totaled \$520,618 for third quarter 2010. Gas tax revenues in the Street Fund increased slightly by 1% compared to third quarter 2009. This tax tied to the number of gallons sold, not the price per gallon. The gas tax is collected at the state level and distributed to cities based on percent of population as compared with the State. REET revenues declined in third quarter by 22% from third quarter 2009.

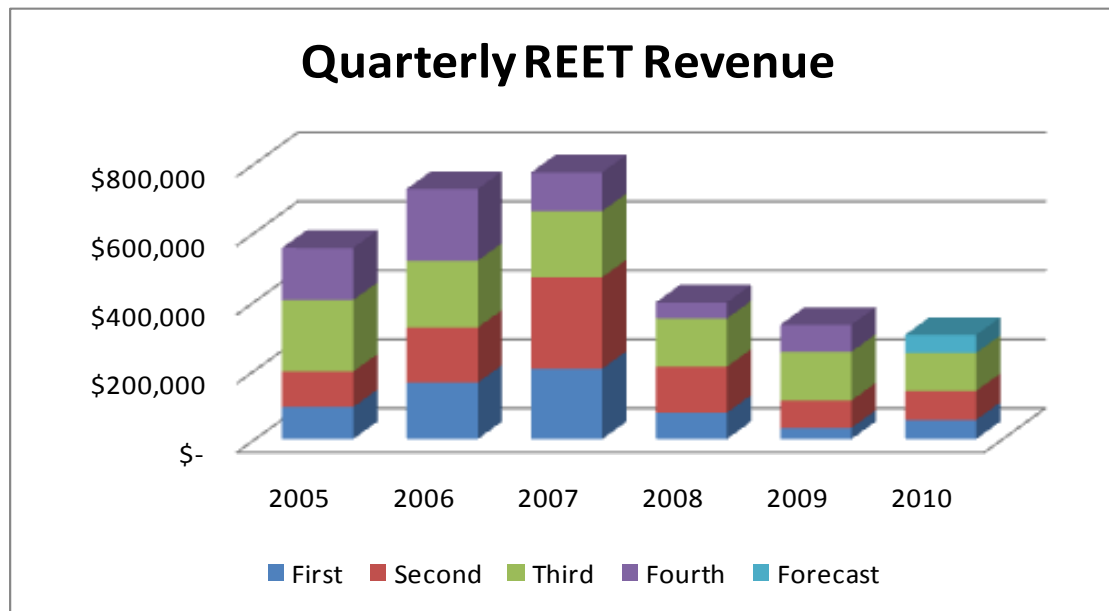
Revenue Category	Third Quarter Actuals		Projected		% of Revenues Collected Through Third Quarter		Remaining
	07/01/09 - 09/30/09	07/01/10 - 09/30/10	2009	2010	2009	2010	2010
Municipal Library	112,435	9,477	481,008	509,303	67.5%	51.6%	246,485
Street Light Utility Fund	5,684	13,462	20,000	25,000	75.6%	62.0%	9,501
Street Fund	312,222	125,784	556,553	851,147	85.6%	44.8%	469,961
Tourism Promotion Fund	13,001	13,536	41,485	36,970	60.8%	69.1%	11,438
Tourism Promotion Area Fund	7,272	7,581	28,921	22,274	51.1%	71.2%	6,414
Restricted Reserve Fund	5,788	1,155	63,092	8,000	21.6%	31.3%	5,494
G.O. Bond Debt Service	-	-	63,108	67,203	26.2%	23.7%	51,302
LTGO Redemption Note	42,089	42,089	168,402	168,112	74.9%	75.0%	42,017
City Land LTGO Bond Fund	-	-	162,439	161,520	49.7%	50.0%	80,760
Capital Projects Fund	70,892	55,763	208,041	151,000	61.3%	83.9%	24,243
Special Capital Projects Fund	70,818	54,429	208,050	151,000	61.2%	81.5%	27,977
Street Capital Projects Fund	715	568	193,900	177,808	1.4%	0.7%	176,509
Outlet Trail Project	17	9	180	75	33.2%	30.2%	52
Pedestrian/Bicycle Bridge Fund	9	5	132	50	26.1%	25.0%	37
Harvard Road Mitigation Fund	10,756	6,476	171,514	32,600	16.0%	225.6%	(40,944)
Library Capital Fund	-	10	-	106,936	0.0%	0.0%	106,917
City Hall LTGO Bond Fund	-	-	108,086	108,086	50.0%	50.0%	54,044
Stormwater Utility Fund	1,167	3,279	52,868	53,919	62.2%	61.9%	20,519
Golf Course	182,884	185,345	566,086	407,800	74.1%	104.2%	(16,942)
Unemployment Fund	78	1,650	7,878	39,100	45.7%	4.3%	37,433
Total Revenues	835,827	520,618	3,101,743	3,077,903	60.9%		1,313,219
July Beginning Fund Balance for All Funds except the General Fund	3,059,066	3,802,165					
Total Resources	3,894,893	4,322,783					

- *Hotel/Motel Tax (Tourism Promotion Fund).* The Hotel/Motel Tax is derived from the sale or charge made for the furnishing of lodging by any hotel, motel, rooming house, tourist court, or trailer camp within the city limits of Liberty Lake for less than 30 consecutive days. In Spokane County, there must be 40 or more units for the tax to apply. The City levies a special excise tax of two percent.
- *Tourism Promotion Area (Tourism Promotion Area Fund).* The City established a tourism promotion area (TPA) that encompasses the entire City of Liberty Lake and has authorized lodging charges within the established area. Lodging businesses in the TPA that have 40 or more units must collect the lodging charge from persons who purchase lodging. The City receives \$1.00 per night of stay for lodging businesses with 40 or more units with lodging revenues exceeding five hundred thousand dollars during the preceding calendar year. The City receives \$.50 per night of stay for lodging businesses with 40 or more units with lodging revenues below five hundred thousand dollars during the preceding calendar year.
- *Restricted Reserve Fund.* The Restricted Reserve Fund is generally maintained at 15% of the General Fund's projected or actual, if known, operating revenues for the fiscal year. Policies for management and use of the Restricted Reserve Fund are laid out in City of Liberty Lake Ordinance No. 107-D.

- *REET (Capital Projects Fund & Special Capital Projects Fund)*. Real Estate Excise Tax (REET) of one-quarter of one percent of the selling price is imposed on each sale of property in the City of Liberty Lake. The tax is deposited into the Capital Projects Fund and is restricted to fund any capital purpose identified in a capital improvement plan and local capital improvements including those listed in RCW 35.43.040.

There is an additional one-quarter of one percent on real estate sales within the city limits. According to state law, cities planning under GMA have the authority to levy a second quarter percent tax (REET 2). Funds from REET 2 are placed in a Special Capital Project Fund and used solely for financing capital projects as specified in a capital facilities plan element of the comprehensive plan.

REET collections have declined significantly since 2007. Third quarter REET revenues declined 22% in 2010 compared to 2009. The chart below demonstrates quarterly fluctuations in REET collections since 2005.



Other Fund Expenditures

Other fund expenditures typically followed the historic spending pattern. Comparing total actual to total budgeted expenditures through the third quarter, other fund expenditures were 54.7% of the budget through third quarter 2010 which does not include ending fund balance. The City's match for the Rocky Hill Park grant project was expensed out of the Capital Projects Fund and Special Capital Projects Fund.

Expenditure Category	Third Quarter Actuals		Budget		% Expended Through Third Quarter		Remaining
	07/01/09 - 09/30/09	07/01/10 - 09/30/10	2009	2010	2009	2010	2010
Municipal Library	112,421	97,528	456,174	469,934	72.4%	60.7%	184,529
Street Light Utility Fund	5,683	13,462	20,000	25,000	75.6%	62.0%	15,499
Street Fund	270,588	130,932	688,518	896,682	69.5%	38.0%	555,652
Tourism Promotion Fund	-	16,500	60,000	60,000	0.0%	42.8%	34,294
Tourism Promotion Area Fund	4,653	-	28,921	22,274	25.9%	0.0%	22,274
Restricted Reserve Fund	-	-	-	1,200	0.0%	13.3%	1,040
G.O. Bond Debt Service	-	-	63,108	67,203	26.2%	23.7%	51,302
LTGO Redemption Note	42,089	42,089	168,402	168,112	74.9%	75.0%	42,017
City LL Land LTGO Bond Fund	-	-	162,439	161,520	49.7%	50.0%	80,760
Capital Projects Fund	24,902	58,563	212,920	172,920	56.3%	75.3%	42,754
Special Capital Projects Fund	25,887	58,562	212,920	172,920	61.7%	75.3%	42,754
Street Capital Projects Fund	-	-	-	-	0.0%	0.0%	-
Outlet Trail Project	-	-	9,790	-	0.0%	0.0%	-
Pedestrian/Bicycle Bridge Fund	-	-	5,446	-	0.0%	0.0%	-
Harvard Road Mitigation Fund	-	-	-	-	0.0%	0.0%	-
Municipal Library Capital Fund	-	-	-	-	0.0%	0.0%	-
City Hall LTGO Bond Fund	-	-	108,086	108,086	50.0%	50.0%	54,044
Stormwater Utility Fund	14,044	11,903	54,000	55,000	35.0%	29.5%	38,780
Golf Course	152,558	143,858	492,956	446,702	68.1%	74.7%	113,162
Unemployment Fund	60	1,646	4,000	39,000	125.7%	31.1%	26,875
Expenditures	652,885	575,042	2,747,680	2,866,553	62.6%	54.7%	1,305,736
Ending Fund Balance for Other Funds on Sept 30th	3,242,008	3,722,929					

Investment Summary

All investments of the City of Liberty Lake are made in compliance with Federal and State laws and in accordance with applicable legal interpretation. Primary objectives of the City of Liberty Lake investment activities are as follows:

1. Safety: Investments of the City are undertaken in a manner that seeks to ensure the preservation of capital in the overall portfolio.
2. Liquidity: The City's investments remain sufficiently liquid to enable the City to meet all operating requirements that might be reasonably anticipated.
3. Return on Investment: The City's investments are designed with the objective of attaining a market rate of return throughout budgetary and economic cycles, taking into account the City's investment risk constraints and cash flow characteristics.

The City complies with State statutory guidelines and the City's investment policies which limit the types of securities purchased. These consist of U.S. Treasury securities, federally-backed agency securities, and other relatively risk-free investments including the Washington State Local Government Investment Pool administered by the Washington State Treasurer's Office. The City does not leverage its portfolio nor does it invest in derivatives.

Market Conditions

The Federal Funds rate remained near historical lows during the third quarter as the Federal Open Market Committee (FOMC) plans for the exit of these historical low rates. For the time being, it appears the FOMC will continue to hold rates low for an "extended" period of time.

Investments on 09/30/2010

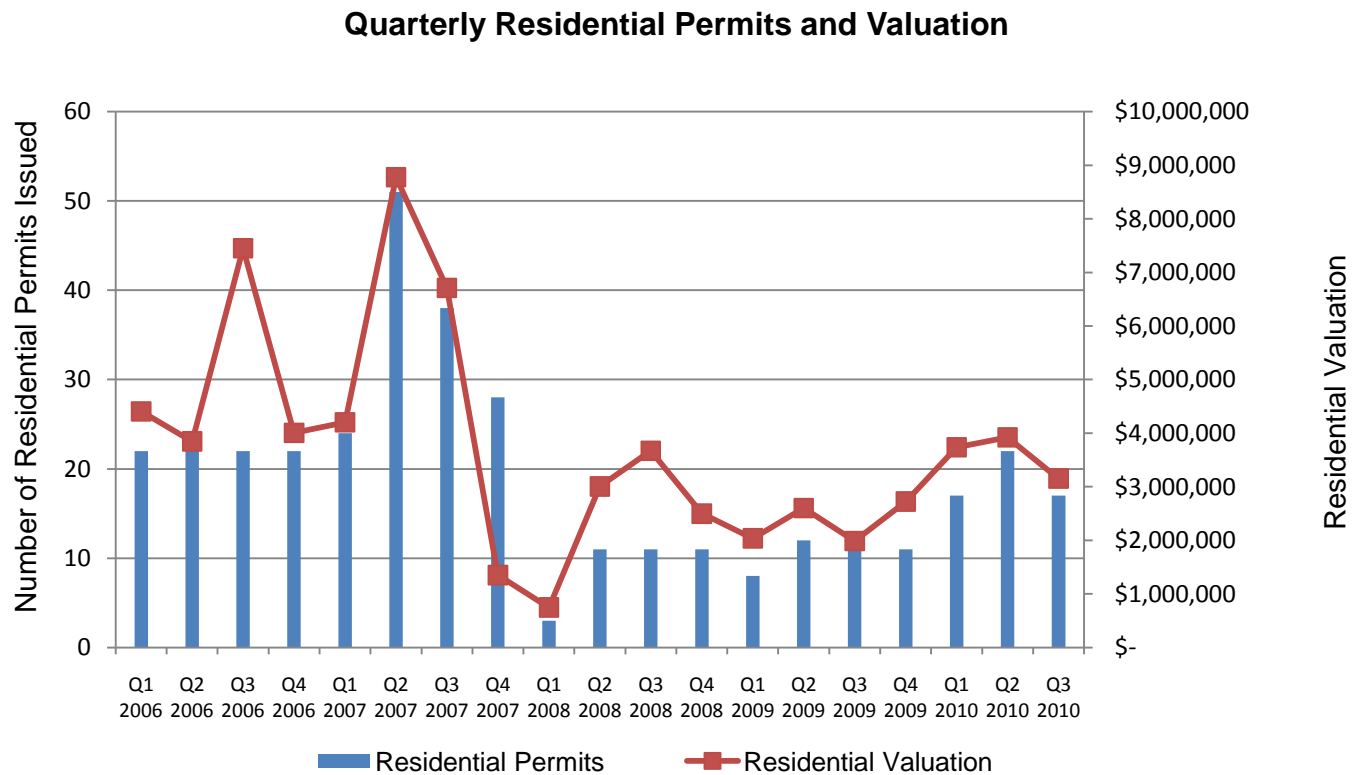
- Total Invested: \$4,989,647.60
- Total Interest Earnings for Third Quarter 2010: \$4,539.52

Investment	Percent of Total Investments	Yield
Washington State Local Government Investment Pool (LGIP)	100%	.30%

Local Building Activity

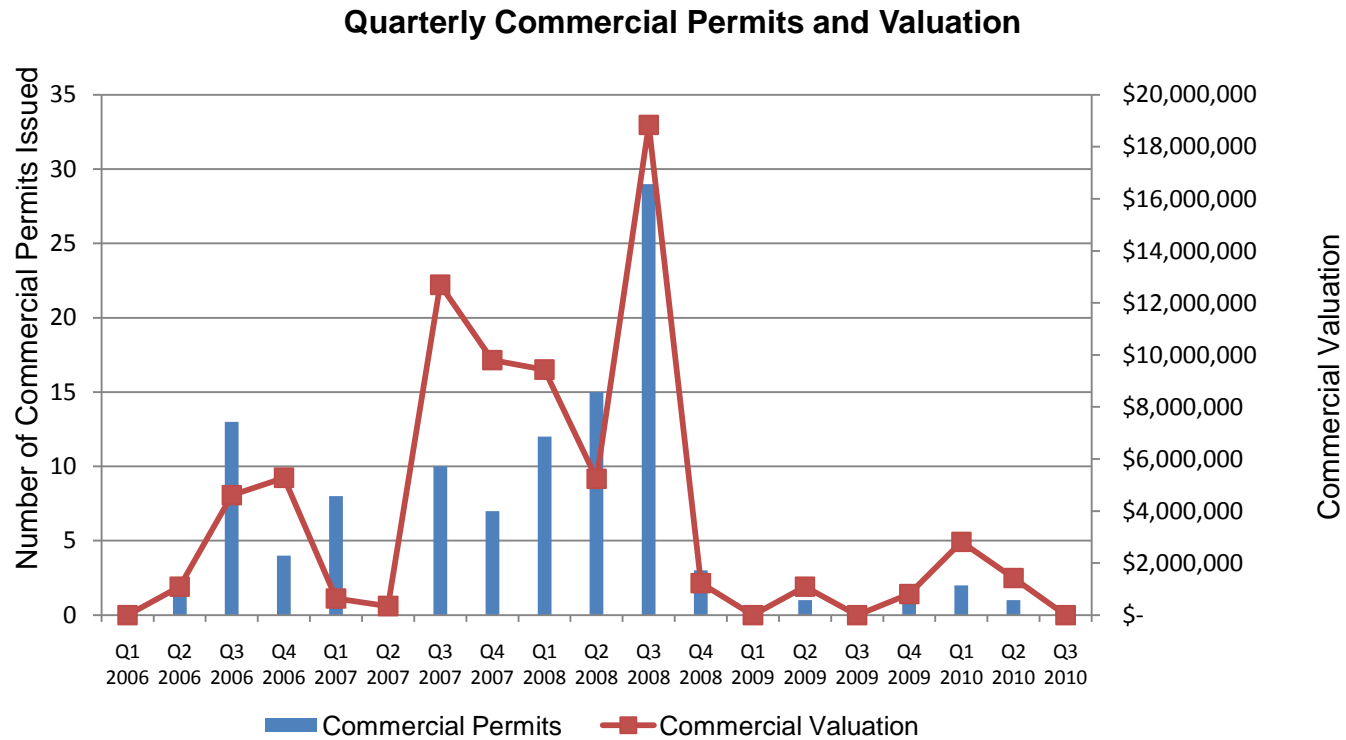
Residential

In third quarter 2010, 17 new single family home building permits were issued compared to 11 permits issued in third quarter 2009. New residential valuation totaled \$3,153,425 for third quarter 2010, which is an increase of 59% compared to third quarter 2009. There were 22 other residential permits issued in third quarter 2010. The chart below reflects quarterly new residential permits and valuation since 2006. Residential building activity fluctuates from quarter to quarter due to seasonal activity.



Commercial

For third quarter 2010, there were no new commercial permits issued, which is similar to third quarter 2009. In third quarter 2010, there were 32 other commercial permits issued. The chart below represents quarterly new commercial permits and new commercial valuation since 2006. Commercial building activity fluctuates from quarter to quarter due to seasonal activity.



Summary

For more information. If you have any questions about this report, please call Jessica Platt, Administrative Services Manager at 755-6702.